

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6201

BILL NUMBER: HB 1057

NOTE PREPARED: Feb 11, 2009

BILL AMENDED: Feb 10, 2009

SUBJECT: Collective Bargaining for Employees of the Executive Branch.

FIRST AUTHOR: Rep. Kersey

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) This bill authorizes collective bargaining for certain employees of the executive branch of the state. It establishes the Public Employees Relations Board to conduct elections and make determinations concerning exclusive bargaining representatives and representation matters. The bill allows an elected state officer to opt in to collective bargaining for the officer's employees.

It establishes 11 statewide bargaining units, and requires the director of the State Personnel Department to determine each employee's bargaining unit assignment. The bill also provides that an employee who threatens, encourages, or participates in a strike, slowdown, or other interruption may be dismissed and would be ineligible for rehiring for at least one year. It provides that an employee organization that threatens, encourages, or participates in a strike, slowdown, or other interruption is decertified as an exclusive bargaining representative for at least one year. The bill reinstates the settlements between the state and employee organizations that were rescinded by Executive Order 05-14.

Effective Date: (Amended) Upon passage.

Explanation of State Expenditures: (Revised) Collective bargaining by public employees involves two major cost components which may affect the state: (1) the cost of the Public Employee Relations Board (PERB); and (2) the effect on wages and fringe benefits of the employees.

PERB Board: With respect to the costs of the PERB Board, based on the FY 2003 through FY 2005 expenses for IEERB, the additional annual cost of the PERB with a full-time executive director and full-time professional and support staff could potentially be between \$400,000 and \$600,000 annually, although the initial costs of the PERB Board could be less since employee organizations that had been certified prior to

the executive order would be granted recognition by the bill.

Collective Bargaining Effect: With respect to the potential costs of collective bargaining, various studies have been conducted in recent years attempting to estimate the effect of collective bargaining on wage, salary, and benefit levels of public employees. Most studies conclude that public sector collective bargaining differs in at least two ways from collective bargaining in the private sector:

(1) Public sector unions have a greater influence than private sector unions on employer behavior because of their ability to work within the political process. Unions, through their lobbying efforts, can influence public sector budgets and, thus, the demand for public sector employees in addition to the level of compensation (Zax and Ichniowski, 1988).

(2) Public sector union wage effects can differ significantly over time and are generally smaller than those in the private sector but are far from negligible (Lewis, 1990).

Wage effects are usually measured through cross-sectional statistical studies where general wage levels of government employees without collective bargaining are statistically compared to collectively bargained wage levels. By controlling for other economic variables which might influence wage levels, researchers are able to arrive at an estimate of the wage differential which is attributable to collective bargaining. After the introduction of collective bargaining, these wage level differentials would not be expected to occur immediately. Rather, the differentials would accumulate from annual contract settlements which are a little higher than what would otherwise occur without collective bargaining. Thus, over time, these small percentage wage and salary improvements due to collective bargaining accumulate into a differential which, once built into the payroll base, is paid annually.

For example, if the annual average wage settlement obtained after the introduction of collective bargaining was 4.5% and the annual wage increase that would have been obtained by employees without collective bargaining was 3.5%, then the difference would be equal to 1% of the payroll level. Over time, a series of contract settlements, over and above what would have occurred without collective bargaining, can be expected to result in an accumulated wage and salary differential.

Comprehensive literature reviews by Freeman (1986) and Lewis (1988) tend to confirm the appropriateness of these moderate, but non-negligible, collective bargaining effects on union/non-union wage differentials for all government employees in the public sector. These studies also report the effect of collective bargaining on fringe benefits to be at least as great or greater than on wage levels. Likewise, studies by Ichniowski (1980), Edwards and Edwards (1982), and Zax (1988) suggest that collective bargaining has a considerably larger impact on fringe benefit levels than on wage levels. Lewis (1990), in a survey of 75 studies which estimated union/non-union wage and benefit differentials for various levels of government and employee groups, concluded that the average differential in total compensation (wages + fringe benefits) was 8% to 12% for the public sector. [Although the majority of statistical studies involve local governments, studies involving federal and state governments indicate that the average wage differential for the federal government employees was less than for all governmental bodies, and that the differential for local governments was above the average for all levels of government. Lewis (1990) indicated that it was not unreasonable to conclude that the wage differential at the local government level was 10% to 15%, about as great as that for all U.S. wage and salary workers.

State wages and salaries as of November 3, 2008, were about \$1,441.5 M for about 36,500 employees. The negotiable portion of the fringe benefit package represents about 16% of the total payroll. Assuming an

estimated 8% to 12% bargaining effect on the total negotiable compensation may occur over some period of time and using the current payroll as the wage base, an estimated accumulated wage and benefit differential of \$133.8 M to \$200.7 M could occur. This does not necessarily imply a commensurate increase in state expenditures. The source of funds which might be required to compensate for the impact of this bill in combination with all other state expenditures may include new tax revenues, reverted funds, and/or funds diverted from other programs or budget categories.

It is important to note that timing is not considered here. Elections and bargaining must take place over time and the attainment of the estimated wage and benefit differential is achieved by the accumulation of contract settlements which are slightly better than what would have occurred without collective bargaining. Therefore, the total impact would not be realized immediately or even in the current biennium and, perhaps, might not be fully realized for a number of years.

Since the General Assembly must ultimately appropriate the funds for wage and benefit packages and the administration must provide those funds to the employees, there may be some years when any negotiated increase would be similar to what would have occurred without collective bargaining. However, statistical studies show that, over time, an increase in the base, for both wages and fringe benefits, does occur in the public sector due to collective bargaining.

Also, some employees are not permitted by the bill to be part of the eleven bargaining units and some employee groups may never choose to unionize. To the extent that this occurs, the effect of collective bargaining may be delayed or moderated. However, if enough groups do unionize, one would expect the compensation levels of non-unionized groups to track the general compensation levels fairly closely.

Not considered here, but potentially very significant, are collectively bargained conditions of employment which are not included in the estimated wage and fringe benefit increases described above.

Explanation of State Revenues: When the wage and salary differential for state employees is reached, additional revenues which would be collected from the 3.4% state income tax on the accumulated employee wage differential would total approximately \$4.5 M to \$6.8 M. In years leading up to the accumulated differential, additional revenue in amounts less than this range could be expected.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: State Department of Personnel database.

Fiscal Analyst: Chuck Mayfield, 317-232-4825.